SUSTAINING THE CALIFORNIA DREAM

Remarks by State Treasurer Philip Angelides
at the Minority Enterprise Development Week Celebration
Hyatt Regency Hotel
San Francisco
August 31, 2000

Today, I'd like to speak with you about the challenges we face as Californians and to share with you some ideas about how we can build a State investment policy that will sustain the California Dream well into the 21st Century.

We're fortunate to live in an extraordinary time in California history. We are in the midst of a remarkable economic boom. Ours is, in fact, the most economically vibrant State in the richest nation on earth. Our financial strength is reflected in a wide array of indicators – from record low unemployment to record rises in personal income to dramatic increases in state revenues.

As the State's chief investment officer, it is my obligation not only to be mindful of our fiscal condition today, but also to look ahead and take actions which will strengthen California's economy into the future. And as we look forward into the next two decades – notwithstanding the flush times we now enjoy – it is clear that the residents of this State are going to face enormous challenges.

Of all the challenges before us, there are two in particular which will threaten our sustained economic progress if we do not respond. The first challenge is to find a way to meet the tremendous demands of projected growth, while preserving those unique environmental qualities that have been so much a part of California's economic strength.

During the next 20 years, California will add 12 million new residents, more than five million new jobs, and four million new households. Two million children will be added to our public school system. This growth will exceed that seen during the boom years of the 1950s, 1960s and 1970s combined.

The growth patterns now underway in California, combined with the explosive growth we are facing, are threatening to California's environmental quality and livability and ultimately will damage its economy if we do not act quickly.

Examples of the costs of current development patterns abound. Last year, Californians wasted more than 800,000 hours per day sitting idle on congested highways. Traffic congestion is not only costing billions of dollars in lost economic productivity, it is a primary cause of the State's poor air quality. Eight of the nation's 15 worst air quality basins are here in California.

Another negative impact of current growth patterns is the lack of affordable housing. California has 13 of the nation's 25 least affordable housing markets. Since

1995, for every 3.2 jobs created statewide, permits have been issued for only one new housing unit. The resulting housing shortage has reached an acute stage, now threatening continued business expansion.

Yet, we need not be victims of growth. If we embrace policies which support more sustainable development at the urban fringe and renewed growth and investment within our urban fabric, we can improve the quality of our air and water, enhance the livability of our communities, preserve the beauty of our beaches, mountains and deserts, and strengthen our economic health. How we direct state investments is a critical element of such policies.

The second overarching challenge – and one that is even more daunting – is to find ways to grow that promote equality of opportunity across our state. For, future economic strength will be elusive if there are "two Californias" – with much of the State experiencing a buoyant economy while simultaneously there are communities suffering from economic decline and devastation. Our current patterns of growth, unfortunately, too often have widened the gulf between California communities. And that gulf is reflected in the vast and increasing disparity of economic opportunity among our State's residents.

California has the greatest gap between rich and poor of all but four states, and the gap grew during the last decade. More than one in five California children today lives in poverty.

In January of this year, the Center on Budget and Policy Priorities completed a study which showed that, in the 1990s, the poorest 20 percent in California saw their real incomes drop by 10 percent – to just over $12,000 per year – while the incomes of the wealthiest 5 percent rose by 18 percent.

An economic mosaic of the State would display the vibrant colors of prosperous neighborhoods and thriving commercial and industrial areas. But the mosaic – in every region – would be dotted with the duller hues of struggling businesses, brownfields and families in poverty.

Dr. Cornel West, my classmate at Harvard who is now a professor there, recently wrote in *The Future of American Progressivism* that:

> "We now see a world of advanced sectors and regions connected to one another and weakly linked to the backward sectors and regions of their own societies."

Sadly, that is all too true of California today. In the Los Angeles area, the effective buying income per capita in Simi Valley is more than twice that in Compton. A 1998 study by the Urban Habitat Program showed wide economic disparities between the inner cities and older suburbs of the Bay Area and the thriving new communities on the fringe. And clearly, the story of the Silicon Valley is not the story of the San Joaquin Valley.

This growing division has direct economic consequences that threaten the State's future. This is a matter of great common interest. Educational failure will damage the quality of our workforce. Poverty will increase the fiscal burden on State and local governments. And crime, borne out of hopelessness, will breed fear and inhibit economic progress in countless communities.

But beyond the direct economic impacts, inequality of opportunity has other dire consequences. Aristotle saw poverty – the absence of a shared stake in society – as a great threat to democracy. And, as Lester Thurow, the noted economist and MIT professor, has rightly asked, "How does one preach political equality in an economy of ever-growing inequality?"

For more than 30 years, the issue of economic inequality and its inevitable consequences has been absent from the center of debate in California's civic, political and financial circles. Now is the time, when our economy is strong, to engage in a new discussion of how to expand opportunity for the California communities struggling in our midst.

The people of this State are very much aware that our current growth patterns are not sustainable. A recent survey found that, by large majorities, Californians ranked both the widening economic gap and diminution in the quality of life among their top concerns. To secure our future, we need to focus on these twin challenges – how can California grow in a way that preserves the environment – and how can we reduce the economic inequality that persists throughout our great State? And I think it is important to note that these two challenges are so interrelated that it will be impossible to achieve the former without addressing the latter.

You may be thinking, at this point, just what is the connection between sprawl and the growing inequality of places and people? What is the connection between traffic gridlock in the fast-growing suburbs and disinvestment in places such as East Palo Alto and Richmond in the Bay Area, and Compton and Bell in the Los Angeles Basin?

Here is one example of the connection: Poor neighborhoods with scarce jobs, low levels of public services and poorly performing schools push out many families who have the resources to move. They flee to already fast-growing areas, which then have to absorb more people and more cars and provide more infrastructure and more services. You know the results in the suburbs – traffic congestion, poor air quality, overcrowded schools, skyrocketing housing prices, and too much distance between the location of jobs and the workers to fill them.

In the areas left behind, the downward economic spiral is accelerated. The tax base is eroded further, public services deteriorate, the quality of schools diminishes, and hope fades.

And, the plain fact is, that as the economies of our struggling communities are hollowed out, the impacts – from crime to physical decay – are rarely confined to just those neighborhoods. Instead, they spread outward into the fabric of communities throughout the region. No community stands in isolation – and six-foot walls cannot break the bonds of common destiny.

The question that should concern every resident of California, then, is this. What can we do to bridge the gap between explosive growth in some places and economic struggle and little hope in others – to bridge this gap that threatens to tear our social fabric, degrade the environment, and dim the economic prospects for all Californians?

To meet these twin challenges, we must first expand opportunity for the communities struggling in our midst. We must make them places of choice and possibility for people and businesses.

That's why, last year, we released a report called *Smart Investments* which outlined policies to direct State infrastructure and community development funding in ways that support sustainable growth – a key element of which is reinvesting in the somewhat tattered fabric of California's existing communities and neighborhoods that we have too often thrown away in 25-year cycles.

Since publication of the report, the Treasurer's Office has moved forward to implement its policies – redirecting more than $7 billion in public funds over the next three years in pursuit of the "smart investment" goals of community reinvestment and sustainable growth. Here are just a few examples of what we've done.

At the California Tax Credit Allocation Committee, which I chair, we adopted new criteria for annually awarding $450 million in federal and state tax credits for the construction and rehabilitation of affordable rental housing. We now give priority to projects in struggling neighborhoods in which the housing is part of a comprehensive revitalization effort. We also reward projects which meet a set of sustainable development goals – for example, projects within walking distance of transit, schools, parks and shopping.

As a Board member of the California Infrastructure and Economic Development Bank, I fought for and won adoption of new rules to govern the $1.4 billion in low-cost loans which the bank will make for local infrastructure projects. This precious resource will now be targeted to economically distressed communities, in support of projects which are environmentally sensible.

And I successfully pushed for adoption of the Extra Credit Teacher Home Purchase Program – a new $150 million initiative which will provide tax credits to assist teachers, willing to serve in low performing schools, in purchasing a home. The program aims to bolster schools in poor neighborhoods.

However, our *Smart Investments* report also recognized that public works and community development programs are only one tool in a wide array of State public policy initiatives that must be seriously pursued if we are to close the gap between the "two Californias" and thereby achieve our goal of sustainable growth.

It will take a powerful and determined attack that mobilizes the resources of the public sector generally, and State government in particular, if we are to overcome the challenges facing struggling communities. As Bruce Katz and Katherine Allen noted in the *Brookings Review*, and I quote, "People in these neighborhoods often face a triple whammy: poor schools, weak job information networks, and scarce jobs."

Those are among the reasons why the State must truly commit itself to a set of public investments – in education, job skills training, and social services – which create the environment of economic hope.

But even a broad public sector effort will not be enough. We cannot succeed without engaging the powerful potential of the capital markets. After all, in our free enterprise system, it is the engine of investment capital, coupled with entrepreneurship, that ultimately creates jobs and wealth.

Accordingly, as Treasurer, I have been looking at what I can do to mobilize the powerful instrument of financial capital, consistent with my fiduciary duties, to respond to the challenges of widening economic disparity and to make sustainable growth a reality in our State.

The State of California – principally through its $300 billion-plus pension and investment portfolios – is woven into the fabric of the global capital markets. This investment power comes with the responsibility to manage capital wisely. It also allows us to set a leadership example in a new movement of capital to pry open the doors of economic opportunity for the California communities left out of the boom of the last decade.

Throughout my first year and a half in office, I have been struck by the unquestioning ease with which billions of dollars of American capital have flowed during the past decade to risky and highly volatile developing countries across the globe, while at the same time California's own underdeveloped communities struggle to attract desperately needed capital to fuel their resurgence.

California's own pension funds – CalPERS and CalSTRS – have more than $5 billion invested in the so-called overseas emerging markets. While the commitment of that capital is playing a role in lifting up some of the poorest nations on this earth, investment returns have been mixed at best, strikingly poor at worst. CalPERS' three-year annualized returns ending December 31, 1999, were minus 28.7 percent in Indonesia; minus 24.4 percent in Malaysia; and minus 25.1 percent in the Philippines.

I know that we can do better investing here at home. And, for all their challenges, you don't need a CIA report to underwrite the San Joaquin Valley or South Los Angeles.

It is in this context that, in May of this year, we launched a new initiative – *The Double Bottom Line: Investing in California's Emerging Markets* – which outlines a new set of State investment policies and programs to link the jet stream of the capital markets with public purpose. This initiative calls on the public sector – from public pension plans to state and local governments – to invest in ways that meet "the double bottom line." By that I mean investing to achieve good returns while simultaneously broadening economic opportunity.

The Double Bottom Line sets forth specific initiatives that direct more than $8 billion in investment capital – through State programs and the State's pension and investment funds – to create economic growth and development in California's communities. These initiatives are just a beginning – beachheads in what must be a wider war on economic inequality.

We're already hard at work putting in place investments that meet the "double bottom line."

- The Treasurer's Office has purchased $400 million in home mortgages made under the Community Reinvestment Act to low and moderate income families and communities, providing new capital to lenders to make even more loans.

- We have increased State deposits in California lending institutions by $1.8 billion, making available well-priced capital for home and business lending.

- CalPERS and CalSTRS, in the last year, have committed over $1 billion in new capital investment for urban, in-fill development – from mixed use to office to commercial to housing – targeted to California communities.

- And CalPERS just approved the California Initiative – a $500 million venture fund to grow businesses in underserved neighborhoods.

These investments are not only the right thing to do, they are the smart thing to do. They create more opportunities for people and businesses, and by doing so, they strengthen existing communities.

And there is a positive result that is very important: Investments that build the economies of struggling communities allow people to choose not to sprawl!

But we need to do more than simply establish new investment vehicles in capital-starved communities.

Therefore, as part of our *Double Bottom Line* initiative, we propose that public pension funds broaden their pool of investment managers. We need to call on the networks and skills of the growing pool of talented ethnic and minority managers who have roots in and knowledge of underserved markets.

We also urge the State to take a more active role in creating new private capital investment in California's emerging markets through improved targeting of its economic and community development financing programs.

And, we recognize that the absence of high quality information about domestic emerging markets has been a key deterrent to the flow of capital. So, we propose that the State provide $5 million for a pilot program to fund market research which can lead to capital investment in at-risk communities.

We know that some will argue that our investment initiatives are too risky. But even as I speak here today, old myths are being swept away by the facts and experience of successful reinvestment – from retailers profitably re-entering inner-city markets to lenders finding new opportunities in traditionally underserved communities. Indeed, a new and growing body of economic data make a powerful case that communities historically overlooked by institutional capital sources are now prime candidates for reinvestment. Let me give you a few examples:

- A 1999 HUD study showed that the retail purchasing power of America's inner-city markets exceeds by nearly $9 billion annually the retail sales in those markets. In Watts alone, the gap is nearly half a billion dollars a year – showing that retail investment is needed and can be successful.

- Ethnic and minority markets – often centered in traditionally underserved communities – are growing dramatically. The Hispanic consumer market has gone from $208 billion in 1990 to an estimated $383 billion in 1999. And in the new economy, more than 54 percent of workforce growth will come from minority communities.

- And finally, the federal Community Reinvestment Act of 1977 – the CRA – enacted at a time when banks were greenlining Latin America but redlining American neighborhoods – is proving that historically underserved communities have great untapped potential. In 1998, Alan Greenspan stated that the CRA "has helped financial institutions discover new markets that may have been underserved before…" He also noted that there is "no evidence that banks' safety and soundness have been compromised by (low and moderate income) lending."

The stage has been set for a new era of investment that can bring new hope to the "other California." But despite what we are doing in the public sector, and despite the hopeful signs that we are seeing around our State and nation, we can't achieve our goals of community renewal and sustainable growth absent a strong working partnership with the private sector.

California's private sector investment leaders have demonstrated, time and again, their extraordinary ability to create wealth and economic success. The talents which have produced the strongest economy in the world must be enlisted in helping to assure our own continued economic success in the 21st Century.

As we embark upon a new investment dynamic, we must call upon the private sector – insurance companies, investment banks, foundations, venture capitalists, high wealth individuals, to name a few – to join us in this crusade.

The full engagement of the public and private sectors in pursuing the policies of the *Smart Investments* report and the *Double Bottom Line* initiative holds out great possibilities. The risks of not pursuing new paths of investment policy will be an uncertain economic future, accompanied by economic and social divisions unlikely to produce good results.

The returns of investing prudently to close the separation between an overflow of development in some areas and a dearth of investment in others will be a California of less congestion, less wasteful decay, more open space, and more opportunity.

In closing, I want to emphasize that the investment policies we have put in place are but one step down the long road toward achieving our twin goals of sustainable development and broadened economic opportunity for our State. The road ahead – to educate and engage our public and private sector partners and to fully deploy the State's own financial and public policy resources – will be a test of our resolve. To fully realize our vision of a brighter future, it will require hundreds and thousands and tens of thousands across California to join together in common cause and collective action.

We are on the verge of a great era in California – if we approach it wisely. We can sustain the California Dream in the 21st Century if we stay environmentally strong and if we throw open the door of opportunity for everyone to participate.

Thank you for asking me to speak to you today, and to describe a vision for investing in our future.

#####